Report on Sony Corporation

15.249: Japan/Korea Trip
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Company History

Overview

Akio Morita, Masaru Ibuka, and Tamon Maeda (Ibuka's father-in-law) started Tokyo telecommunications Engineering in 1946 with funding from Morita's father's sake business. The company produced the first Japanese tape recorder in 1950. Three years later, Morita paid Western Electric (US) $25,000 for transistor technology licenses, which sparked a consumer electronics revolution in Japan. His firm launched one of the first transistor radios in 1955, followed by the first Sony-trademarked product, a pocket-sized radio, in 1957. The next year the company changed its name to Sony (from "sonus," Latin for "sound," and "sonny," meaning little man). It beat the competition to newly emerging markets for transistor TVs (1959) and solid-state videotape recorders (1961).

Sony launched the first home video recorder (1964) and solid-state condenser microphone (1965). Its 1968 introduction of the Trinitron color TV tube began another decade of explosive growth. Sony bet wrong on its Betamax VCR (1976), which lost to rival Matsushita's VHS as the industry standard. However, 1979 brought another success, the Walkman personal stereo.

Pressured by adverse currency rates and competition worldwide, Sony used its technology to diversify beyond consumer electronics and began to move production to other countries. In the 1980s, it introduced Japan's first 32-bit workstation and became a major producer of computer chips and floppy disk drives. The purchases of CBS Records in 1988 ($2 billion) and Columbia Pictures in 1989 ($4.9 billion deal, which included TriStar Pictures) made Sony a major force in the rapidly growing entertainment industry.

The firm manufactured Apple's PowerBook, but its portable CD player, Data Discman, was only successful in Japan (1991). In the early 1990s, Sony joined Nintendo to create a
new kind of game console, combining Sony's CD-ROM drive with the graphic capabilities of a workstation. Although Nintendo pulled out in 1992, Sony released PlayStation in Japan (1994) and in the US (1995) to great success. Two years later, in a joint venture with Intel, it developed a line of PC desktop systems.

Rather than support an industry-wide standard, in 1997 Sony teamed up with Philips Electronics to make another recording media, called Super Audio CD, which could replace videotapes and CDs. The move could set up a winner-take-all rivalry that recalls Sony's Betamax vs. VHS gamble. (Sony and Philips created the CD and continue to receive royalties from it.)

In 1998 Sony shipped its first digital, high-definition TV to the US; folded TriStar into Columbia Pictures; merged its Loews Theatres unit with Cineplex Odeon; and launched its Wega flat-screen TV.

Philips, Sun Microsystems, and Sony formed a joint venture in early 1999 to develop networked entertainment products. Then the company announced two deals to deliver music to customers digitally: It agreed to merge Columbia House with online music retailer CDnow (called off in March 2000), and it agreed to allow Digital On-Demand to sell downloaded music from in-store kiosks to consumers. Also in 1999 Nobuyuki Idei became CEO, and the company introduced a Walkman with the capability to download music from the Internet.

In 2000 Sony formed PlayStation.com Japan to sell game consoles and software online; it also introduced its 128-bit PlayStation2, which can play DVD movies and connects to the Internet. The company later restructured, placing all of its US entertainment holdings under a new umbrella company called Sony Broadband Entertainment.

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1 This section was adapted from information provided on Sony’s website (http://www.sony.co.jp/en/SonyInfo/IR/)
In early 2001 Sony set in motion plans to set up online banking operations with Japan's Sakura Bank and JP Morgan Chase.

As of March 31, 2000, Sony Corporation claimed to employ 19187 people, however it is not clear where they draw the organizational boundaries in providing this figure.

**Note About Sony’s Founder and Chairman, Akio Morita**

Akio Morita had been groomed since the third grade to become the successor of a 14-generation family business: a prominent sake-brewing company in Nagoya. However, in true entrepreneurial spirit, he traded this life of comfort and privilege for the uncertainties of a start-up, called Tokyo Telecommunications Engineering, Inc., in 1946, during an era of incredible turmoil in postwar Japan.²

Mr. Morita believed that a company’s lifeblood stemmed from its brand. Although this is a marketing concept widely used by companies today, it was revolutionary at that time in Japan, when most companies were producing products under somebody else's name. Pentax, for example, was making products for Honeywell, Ricoh for Savin and Sanyo for Sears. Because of this belief, Mr. Morita changed the company's name to "Sony Corporation" from "Tokyo Telecommunications Engineering Corporation" in 1958. It is notable that this year, according to a Harris survey, Sony is rated the number one brand name by American consumers, ahead of Coca-Cola and General Electric.

In 1961, Mr. Morita drove the issuance of Sony's American Depositary Receipts, a first among Japanese companies. He was also responsible for push behind the subsequent listing of Sony shares on the New York Stock Exchange in 1970.

In 1966, Mr. Morita wrote a book called *Never Mind School Records* that stressed his belief that companies should emphasize the capabilities of individuals, rather than their

prior academic background and history. This point of view sparked a heated-debate in Japan, and was instrumental in raising questions about Japan's employment and personnel development.

One of the legacies of the founders is the belief that R&D and product development can lead new forms of enjoyment for customers. An example of this is the Walkman, an idea that sprung from Mr. Morita’s curiosity. The Walkman was based on the unprecedented concept of enjoying your favorite music anywhere and anytime, even outdoors.

Mr. Morita served as a co-chair of various conferences, including the Japan-U.S. Business Council, The Trilateral Commission, and the World Economic Forum in Davos. He assisted in improving Japan-U.S. relations by playing leading roles in the Keidanren (Japan Federation of Economic Organizations), the Japan-U.S. Economic Relations Group, also known as the "Wise Men's Group", and other organizations. His role in these organizations was instrumental in easing trade friction with the U.S. He was also an author of the book Made in Japan and other books, and directed his energy to furthering mutual understanding between Japan and the rest of the world.3

In 1998, Mr. Morita was chosen by the U.S. magazine Time as the only Asian member on its list of the 20 most influential business people of the 20th century.

Until his death on October 3, 1999, Akio Morita Mr. Morita remained a leader in all areas of Sony’s management, including the creation of new products, marketing, overseas operations, and personnel development.

3 Ibid. 2000.
Management, Organization and Corporate Governance

Vision, Mission and Values

When the company was founded in 1946, Mr. Ibuka created the Founding Perspectus, a document outlining the mission and values that he wanted his company to adopt. The first section was the “Purpose of Incorporation”, which was broken down into the following eight points:

a. To establish of an ideal factory that stresses a spirit of freedom and open-mindedness, and where engineers with sincere motivation can exercise their technological skills to the highest level;

b. To reconstruct Japan and to elevate the nation's culture through dynamic technological and manufacturing activities;

c. To promptly apply highly advanced technologies which were developed in various sectors during the war to common households;

d. To rapidly commercialize superior technological findings in universities and research institutions that are worthy of application in common households;

e. To bring radio communications and similar devices into common households and to promote the use of home electric appliances;

f. To actively participate in the reconstruction of war-damaged communications network by providing needed technology;

g. To produce high-quality radios and to provide radio services that are appropriate for the coming new era;

h. To promote the education of science among the general public.

Many of these values continue to resonate through Sony today. The company continues to focus on communications and home electric appliances, but now also concentrates on content and services for that are essential to the devices it supplies. This addition of content and services has made Sony essentially a vertically integrated entertainment business. Today, the company focuses on supplying electronic devices for user
entertainment, and the associated content and services that enhance the functionality of these hardware products.

Sony’s vision is to continue with this strategy, focusing on broadband networks. CEO Idei Nobuyuki has openly stated that he wants Sony to become a “broadband entertainment company.” He wants Sony to be wherever people gather - especially on the Internet. For instance, in the case of music or movies, Idei wants Sony to create Web-content and associated hardware that will work together to form a complete entertainment system.

**Product-Market Strategy**

To make this vision a reality, Sony is striving to strengthen the core Electronic business by applying information technologies to product design, production, distribution, and sales. The belief is that this will strengthen the value of Sony’s music, pictures, game, and financial services businesses, as they become available over networks. Thus, Sony is now releasing network-focused products in four categories: digital TVs and set-top boxes, VAIO home-use PCs, PlayStation 2, and mobile devices.

**Business Units**

Sony has developed many innovative products and is now one of the world's foremost companies in the consumer and industrial electronics and entertainment business areas. It manufactures audio/video equipment, televisions, information and communication equipment, semiconductors and other electronic components, and home video game systems. Through Sony Music Entertainment Inc. and Sony Pictures Entertainment, Sony is also strengthening its business in the worldwide music and image-based software
markets and in the insurance business through Sony Life Insurance Co., Ltd., a consolidated subsidiary in Japan.  

Electronics accounted for 66% of fiscal 2000 revenues; music business, 10%; game console and software business, 9%; motion-picture and television business, 7%; insurance business, 6% and other, 2%. Sony has 1,152 subsidiaries and 107 affiliates worldwide, 1,080 of which were consolidated in fiscal 2000.

Sony has its main manufacturing plants in Asia (primarily Japan), Europe, Mexico, and the US, and sells its products worldwide. The regional breakdown of sales is shown in Table 1.

<table>
<thead>
<tr>
<th>Region</th>
<th>$ (Millions)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>20,012</td>
<td>32</td>
</tr>
<tr>
<td>US</td>
<td>19,124</td>
<td>30</td>
</tr>
<tr>
<td>Europe</td>
<td>13,872</td>
<td>22</td>
</tr>
<tr>
<td>Other Regions</td>
<td>10,074</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63,082</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 1. Regional Breakdown of Sales Source: Merrill Lynch

**Electronics**

Within the Electronics Division, sales are reported using five product categories: Audio; Video; Televisions; Information and Communications; and Other. The product portfolio for each of these segments is shown in Table 2.
Games: Sony Computer Entertainment

The Sony Computer Entertainment Division (SCE) develops, designs and sells PlayStation, PS one and PlayStation 2 entertainment hardware and related software, and enters into licenses with third party software developers. These are principally sold in Japan, the United States and Europe.

Music: Sony Music Entertainment

The Music division is split into Sony Music Entertainment Inc., (SMEI) and Sony Music Entertainment Japan (SMEJ). SMEI is composed of a number of subsidiaries, including Columbia Records, Sony Classical, Sony Discos, Sony Disc Manufacturing, and Sony Music Nashville. SMEJ subsidiaries include Sony Records and Epic Records.

<table>
<thead>
<tr>
<th>Audio</th>
<th>Video</th>
<th>Televisions</th>
<th>Information &amp; Communication</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audiotapes</td>
<td>8mm/Digital8</td>
<td>Car</td>
<td>Car navigation systems</td>
<td>Batteries</td>
</tr>
<tr>
<td>Car audio equipment</td>
<td>Broadcast and professional video equipment</td>
<td>Color</td>
<td>Cellular phones</td>
<td>CRTs</td>
</tr>
<tr>
<td>CD players</td>
<td>Digital still cameras</td>
<td>Flat panel displays</td>
<td>Computer displays</td>
<td>Electronic components</td>
</tr>
<tr>
<td>Headphones</td>
<td>Digital Video</td>
<td>Personal LCD monitors</td>
<td>Computer peripherals</td>
<td>CRTs</td>
</tr>
<tr>
<td>Hi-fi components</td>
<td>DVD players</td>
<td>Professional monitors/projectors</td>
<td>Data media</td>
<td>CRTs</td>
</tr>
<tr>
<td>IC recorders</td>
<td>VHS</td>
<td>Projection</td>
<td>IC recording media</td>
<td>CRTs</td>
</tr>
<tr>
<td>MiniDisc systems</td>
<td>Videotapes</td>
<td></td>
<td>Satellite</td>
<td>CRTs</td>
</tr>
<tr>
<td>Personal component</td>
<td>Videotape recorders</td>
<td></td>
<td>Personal computers</td>
<td>CRTs</td>
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<tr>
<td>stereos</td>
<td></td>
<td></td>
<td>Satellite broadcasting</td>
<td>CRTs</td>
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<tr>
<td>Professional-use</td>
<td></td>
<td></td>
<td>reception systems</td>
<td>CRTs</td>
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<td>audio equipment</td>
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<td></td>
<td></td>
<td>CRTs</td>
</tr>
<tr>
<td>Radio-cassette tape</td>
<td></td>
<td></td>
<td></td>
<td>CRTs</td>
</tr>
<tr>
<td>recorders</td>
<td></td>
<td></td>
<td></td>
<td>CRTs</td>
</tr>
<tr>
<td>Radios</td>
<td></td>
<td></td>
<td></td>
<td>CRTs</td>
</tr>
<tr>
<td>Tape recorders</td>
<td></td>
<td></td>
<td></td>
<td>CRTs</td>
</tr>
</tbody>
</table>

Table 2. Product Portfolio  Source: www.world.sony.com
SMEI and SMEJ produce recorded music and video through contracts with many artists worldwide in all musical genres (lists some samples). SMEI and SMEJ manufacture, market and distribute CDs, MDs, DVDs, Super Audio CDs and pre-recorded audio and videocassettes, and produce and manufacture CD-ROMs. The Music business has an extensive and geographically diversified software manufacturing capacity. Software is manufactured principally for the Music business, the Games business and third parties.

**music**

Celine Dion, a five-time Grammy Award® winner, has sold more than 100 million albums worldwide in the past decade.

“Heartbreaker”, from her Rainbow album, gave Mariah Carey the biggest first-week sales of her career.

In 1999 Charlotte Church became the biggest-selling female classical artist in the world.

Dixie Chicks' second album, Fly, was the biggest selling album by a country music group in 1999.

Jennifer Lopez’ On The 6 album established her as a triple-threat talent in music, television, and films.

Sales of Macy Gray's On How Life Is have grown exponentially since the album’s release.

L’Arc~en~Ciel's albums ark and ray debuted as the number one and number two albums, respectively, on the weekly Japanese ranking chart ORICON after their releases on July 1, 1999.

Ami Suzuki's 2nd album infinity eighteen vol.1, which was released on her 18th birthday on February 9, 2000, debuted in the top spot on ORICON.
Figure 1. Sample of Sony Artists  Source: www.world.sony.com

**Pictures: Sony Pictures Entertainment**

Subsidiaries of the Sony Pictures Entertainment Division (SPE) include: Columbia Pictures, Screen Gems, Sony Pictures Classics, the Columbia TriStar Television Game Show Network, Columbia TriStar Home Video, Sony Pictures Studios, and the Culver Studios.

Operations of SPE include:

- motion picture - production, acquisition and distribution
- television – programming, production, acquisition and distribution
- home video - acquisition and distribution
- television broadcasting
- operation of studio facilities

**Insurance: Sony Life Insurance Co., Ltd.**

Sony Life Insurance Co. Ltd. includes insurance-related underwriting businesses. These focus primarily on individual life insurance, and individual automobile insurance.

**Other Business Units**

The other business units include:

- Sony Finance International, Inc., focused on leasing and credit financing
- Sony Trading International Corporation, a parts trading services within the Sony group
- Sony Broadcast Media Co. Ltd., a satellite distribution services program supplying businesses in Japan
Other location-based entertainment businesses in Japan, the United States and Germany.

**Interesting Current Initiatives**

**E-commerce**

Sony and Matsushita Electric, the two largest Japanese consumer electronics manufacturers, are each in the process of implementing new e-commerce strategies in Japan. Sony launched its e-commerce site, SonyStyle.com, in February 2000.

Interestingly, the major difference between the two strategies has to do with the way that they account for traditional sales channels. Over the years, both companies have relied on distribution through major discount stores, but also through smaller local retailers with whom they have established "direct-affiliate" relationships. Being a direct affiliate entitles a local retailer to better financing and merchandising terms. Although Sony has over 2,000 direct-affiliate shops nationwide, over 80% of its volume comes from major discounters, which tend to be more aggressive when it comes to pricing Sony's products. Matsushita, on the other hand, relies mainly on its chain of 20,000 direct-affiliate shops, with major discounters producing less than half of all sales.\(^6\)

Sony's strategy reflects its desire to reduce the role of the big discounters as middlemen, and thus retain greater control over prices. The company is launching its e-commerce site and E-Sony Shop network, a chain of directly owned retail stores to provide customer support.\(^7\) In contrast, Matsushita's approach is designed to let new online distribution channels coexist more easily with its network of direct affiliate shops. The company will develop new products and services to be sold through Pana Sense, while the local affiliate shops will provide after-sales support.

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\(^6\) Li, Kenneth, 2000. “Sony bets on E-Commerce.” Industry Standard
\(^7\) Ibid., 2000.
**Car-Navigation Systems**

The worldwide car navigation systems market is poised for explosive growth, driven by new technologies, installation of standard equipment in more car models and a downtrend in prices. Sony currently has a 7% share of this market worldwide.

DVD-based digital systems are the latest to hit the market. These systems incorporate sophisticated technology, including web-access and advanced voice recognition. Currently, a major hurdle in popularizing these products is their cost, which ranges in upwards of $3000.\(^8\)

Car-navigation technology, which has been around for some time in Japan and Europe, has yet to catch on in the United States. To date, 50,000 systems have been sold in the United States. However, these systems are not likely to gain popularity unless they become more economical. One of the key factors affecting the growth of this market is the navigation databases that underlie these systems. Current navigation databases lack accuracy and sufficient detail. Sony recently acquired Etak in an effort to develop an independent, proprietary database.

**Video-Game Machines and Console Software**

Sony’s Playstation 2 (PS2) is claimed to be the first next-generation game console. This system can play DVDs, CVDs, and CD-Roms. PlayStation 2 sold over one million units in the United States after its first three months, despite being limited by a shortage of components.\(^9\)

In February, Sony Corp. unveiled an alliance with game software makers Sega Corp. and Namco Ltd. in online game distribution. Under the agreement, Sony plans to develop

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methods to distribute game contents via fiber-optic cables to game arcades run by Sega and Namco.  

A cable that will enable PS2 units to connect to I-mode devices will hit store shelves on March 29. (I-mode is a wireless protocol developed by NTT DoCoMo.) On April 19, Sony will release the game "i-mode Mo Issyo" priced at 2,800 yen. The networked game lets players meet and interact as animated characters. It will be followed on April 26 with the "Check-i-TV" (pronounced 'cheeky TV' with 'i' for I-Mode) another interactive game that has players watching and ranking TV programs and personalities in a game-show like setting with some cute on-screen animal pals. It also costs 2,800 Japanese yen. Games will be billed as “packet data transmission”, according to the volume of data they send and receive.

This summer Sony is expected to release the hard drive extension module for PS2 with Ethernet capability. This release is currently scheduled for July - over a year later than its initial targeted release. The system contains security software to guard against copyright infringement of networked games, music or other content, and also includes software for online billing.

**Competition**

Competition for the PS2 is as follows:

**Microsoft** will be launching a product called Xbox, which is expected to compete directly with Playstation 2. Xbox is scheduled for launch this fall and is aimed to attract the same core video game fan base of teenage boys that Sony Corporation targeted with its PlayStation 2, launched in the United States last fall. The Xbox incorporates a Broadband high-speed Internet connection, but requires consumers to purchase a peripheral to play DVD movies.
Sega announced recently that it was exiting its loss-making Dreamcast game console business to focus on the more profitable software and game arcade business. Furthermore, Sega recently partnered with NTT DoCoMo to jointly develop a network to connect the arcade games to the i-mode Internet accessible phone system.
## Appendix A. Financial Performance

### FOR THE YEAR

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<tbody>
<tr>
<td>Sales and operating revenue</td>
<td>¥1,586,740</td>
<td>¥5,558,253</td>
<td>¥6,761,004</td>
<td>¥6,804,182</td>
<td>¥6,686,661</td>
<td>$63,082</td>
</tr>
<tr>
<td>Operating income</td>
<td>229,499</td>
<td>365,449</td>
<td>525,724</td>
<td>348,212</td>
<td>240,627</td>
<td>2,270</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>132,334</td>
<td>307,548</td>
<td>459,263</td>
<td>377,691</td>
<td>264,310</td>
<td>2,193</td>
</tr>
<tr>
<td>Income taxes</td>
<td>77,158</td>
<td>163,570</td>
<td>214,868</td>
<td>176,973</td>
<td>94,644</td>
<td>892</td>
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<tr>
<td>Net income</td>
<td>54,252</td>
<td>139,460</td>
<td>222,068</td>
<td>179,004</td>
<td>121,835</td>
<td>1,149</td>
</tr>
</tbody>
</table>

Per share data:

- Basic
  - Net income $72.5 $183.9 $278.9 $218.4 $144.6 $1,36
- Diluted
  - Net income $67.0 $154.6 $241.7 $195.5 $131.7 $1,24
- Cash dividends $25.0 $27.5 $30.0 $25.0 $25.0 $0.24

### DEPRECIATION AND AMORTIZATION

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<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>¥227,316</td>
<td>¥266,532</td>
<td>¥301,665</td>
<td>¥307,173</td>
<td>¥306,505</td>
<td>$2,892</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(additions to fixed assets)</td>
<td>251,197</td>
<td>298,078</td>
<td>387,955</td>
<td>353,730</td>
<td>435,887</td>
<td>4,112</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>257,526</td>
<td>282,509</td>
<td>318,044</td>
<td>375,314</td>
<td>394,479</td>
<td>3,722</td>
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### AT YEAR-END

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</thead>
<tbody>
<tr>
<td>Net working capital</td>
<td>¥816,361</td>
<td>¥843,500</td>
<td>¥1,151,152</td>
<td>¥1,126,848</td>
<td>¥974,298</td>
<td>$9,191</td>
</tr>
<tr>
<td>Stockholders' equity</td>
<td>1,169,147</td>
<td>1,459,332</td>
<td>1,815,555</td>
<td>1,823,665</td>
<td>2,182,906</td>
<td>20,593</td>
</tr>
<tr>
<td>Stockholders' equity per share</td>
<td>¥1,562.77</td>
<td>¥1,899.31</td>
<td>¥2,230.69</td>
<td>¥2,224.35</td>
<td>¥2,409.36</td>
<td>$22.73</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,045,699</td>
<td>5,880,246</td>
<td>6,403,043</td>
<td>6,299,053</td>
<td>6,807,197</td>
<td>64,219</td>
</tr>
</tbody>
</table>

### Number of shares issued at year-end (thousands of shares)

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>374,068</td>
<td>384,185</td>
<td>407,195</td>
<td>410,439</td>
<td>453,639</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sony Corporation 2000 Annual Report
Appendix B. Questions for Visit

The following are the questions prepared by the Sony team for the upcoming visit.

Sony Playstation 2

?? Microsoft is rumored to be selling its Xbox for $50 under cost. What is your
perception of Microsoft’s entrance into the home gaming market, and how will you
differentiate your product from Microsoft?

?? Sega has traditional been a fierce competitor in the home gaming market, but you are
now partnering with Sega to provide games in their arcades. How do you see this
partnership playing out.

?? When you released Playstation 2, the device was an instant success. You sold over 1
million copies in three months, but demand clearly surpassed supply. How did you
forecast demand, and what would you do differently next-time?

?? Playstation 2 is much more technically advanced than previous gaming units, and
includes a DVD, CD-Rom, and Ethernet connectivity. Analysts have speculated that
it could evolve into the next generation computer for the home. What is your view on
convergence of the home game and home PC market? Additionly can you give us a
sense of what additional might eventually be available through Playstation 2?

MP3 Players

?? Why is the electronic division pushing MP3s when the music industry is fighting it?
In particular, how is your electronic division responding to your music divisions
concerns over music piracy?

?? There has been a lot of press about the gadget wars. What do you think of non-
traditional consumer electronics manufacturers (Creative, 3Com, etc.) moving into
the market for electronic gadgets player market?

Founders
Both of your founders have passed away in the past few years. How has their vision carried forward to the new management team?

**E-Commerce**

You have always relied heavily on retailers in your distribution chain, but are now going direct to consumers. Some CD retailers have even begun to sue you. In light of this, how does SonyStyle fit into your distribution strategy?